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INFO RUEHBO/AMEMBASSY BOGOTA 7718
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SUBJECT: ECUADOR'S TARGETED CASH TRANSFER AND HOUSING SUBSIDY
PROGRAMS MORE SUCCESSFUL THAN OTHER SUBSIDIES

Ref. Quito 815

¶11. (SBU) SUMMARY. The GOE has two targeted subsidy programs, direct cash transfers and a housing bond, that aim to improve food security, assist in human capital development through child education, and provide financing for housing to low and middle-income families. The Correa Administration doubled the cash transfer program shortly after taking office, and the GOE has dramatically expanded the housing program. Given their targeted structure, these remain two of the most effective subsidy programs administered by the GOE, and both have been very popular with the electorate in Ecuador's frequent elections. In contrast, most of the other GOE subsidy programs, including expensive subsidies for fuel and electricity, are poorly focused, and likely unsustainable.
END SUMMARY.

Human Development Bond (BDH)

¶12. (U) Ecuador's Ministry of Economic and Social Inclusion administers the Human Development Bond (Bono de Desarrollo Humano, or BDH) through direct cash transfers of \$30 per month. Upon taking office in January 2007, the Correa Administration almost immediately doubled the monthly payment from \$15. Eligibility is determined by a government beneficiary selection database called SELBEN (System to Identify and Select Beneficiaries of Social Programs). The program targets individuals in the lowest two quintiles of income. Those over 65 years of age and those with disabilities receive an unconditional cash transfer. Mothers in this economic bracket are eligible to receive a conditional cash transfer, dependent upon proof of school enrollment for children between the ages five and 16, among other required documentation.

¶13. (SBU) In 2007, over 1.2 million Ecuadorians received BDH assistance, and the number of recipients is on track to grow nearly 4% this year. Research indicates that BDH recipients spend 25% more on food than non-recipients of comparable income, which indicates that the program is successful in providing additional food security. 72% of direct cash transfers went to mothers, and although individuals in the lowest two economic quintiles are eligible for assistance, program evaluations indicate that only the lowest quintile group significantly benefit from BDH assistance.

¶14. (SBU) Expenditures under the BDH have doubled since it was introduced in 2003. A former program coordinator, Daniela Oleas, noted that the program allows mothers in indigenous Ecuadorian communities greater independence from their husbands and increased control over their resources. An evaluation of BDH by the German development corporation, GTZ, indicates that children in participating families are 10% more likely to be enrolled in school and 17% less likely to be working. BDH assistance thus appears to be helping to close the gap in school attendance between rich and

poor Ecuadorians. Oleas noted, however, that many families feel that the poor quality of secondary education in Ecuador prevents their children from realizing meaningful gains by not working. In her view, BDH will not achieve its goals without accompanying educational reforms. Some observers believe the BDH should also be reformed to exclude second quintile recipients and place greater emphasis on lowest-quintile recipients. However, this reform is unlikely given the upcoming constitutional referendum and possible general elections in early 2009.

Urban and Rural Housing Bonds

¶5. (U) Housing bonds are provided by Ecuador's Ministry of Urban Development and Housing to low and middle-income Ecuadorian citizens for the purchase of a new home, housing improvements, or new housing construction. A few months after taking office, the Correa Administration expanded the coverage of the program. Single individuals who are at least 35 years of age are eligible for housing bonds, as well as heads of households and disabled Ecuadorian citizens who are at least 18 years of age. Urban housing bond beneficiaries must also have a savings account with a participating financial institution with a balance of at least 10% of the cost of new home. Bond values range between \$1500-\$3600. Beneficiaries must either be in SELBEN's three lowest quintiles of income (a monthly family income of less than or equal to \$600), or, if not registered in SELBEN, they must have an income of \$800 or less and must be purchasing housing worth between \$12,000 and \$20,000.

¶6. (U) The program's market-based approach brings together

individuals, private sector firms, communities, international donors, and the Ecuadorian government. Urban housing bonds are often called the ABC program because they depend upon 1) Ahorro (individual household savings); 2) Bono (the direct transfer from the government); and 3) Credito (a financial institution loan at the local interest rate to support the difference between the subsidy and the cost of home construction). In practice, however, many families cannot take advantage of the credit option due to tight credit requirements. The program is also characterized by heavy bureaucratic requirements. According to the Inter-American Development Bank (IDB), the estimated time from the receipt of an application until completion of a new home is five years.

¶7. (SBU) From 2006 to 2007 the GOE increased the number of housing bonds awarded from 15,502 to 60,114, an increase of 387%. GOE investment in housing bonds rose from \$10 million to \$179 million in the same period. Despite the apparent success of the program, some observers believe it is unsustainable. The program was previously managed under IDB auspices, but the GOE ended continued funding from the bank in an effort to increase local management of the country's social programs. As a result, the IDB claims that the program's transparency has suffered, as well as its strategic focus on the poor. Due to lower interest rate ceilings (reftel), the IDB says that banks will no longer lend credit to families in the program, significantly hurting the construction sector. Even so, the GOE is trying to rapidly expand the program. Under IDB management, only 6,000 housing projects per year were inaugurated, as opposed to the GOE's 60,000.

Comment

¶8. (SBU) The cash transfer and housing subsidy programs are the two most focused and cost effective in the growing and increasingly expensive stable of GOE subsidy programs. Capitalizing on existing programs was an effective way for the Correa Administration to achieve its expressed goal of meeting the needs of the poor. In contrast, most of the other GOE subsidy programs are poorly focused. The Correa Administration inherited a very expensive subsidy program for refined fuel products, which now costs several billion dollars a year, and largely benefits well-to-do consumers. The fuel subsidies also encourage smuggling to neighboring countries. The government has also begun an untargeted electricity subsidy, which will cost an estimated \$200 million, to lower electricity rates for consumers outside of Quito and Guayaquil. This follows implementation last year of a more targeted subsidy program for low

volume electricity users. The Correa Administration has also implemented subsidy programs for key products such as fertilizers, flour and rice that are, at best, loosely targeted.

HODGES